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Rep. Brad Benson

State Budget Update

Controlling Taxes & Making Government Work

November 2001

Dear Friends,

The state budget is actually three separate budgets.

- 1) The operating budget, which we usually refer to as "the budget"
- 2) The transportation budget
- 3) The capital budget

These budgets each rely on different funding sources. Budgets are adopted every two years. The current budget went into effect July 1, 2001 and ends June 30, 2003. Each year the Legislature adopts supplemental budgets to adjust for changes in revenues, emergencies, and unexpected needs such as fire suppression, disaster relief and caseload changes in entitlement programs.

The following is an update on the three budgets. Hopefully it will give you an insider's view of what is happening in Olympia, and an idea of what to expect. I welcome your comments, questions, and advice as we go into a very tough year of budget negotiations.

Sincerely,


Rep. Brad Benson

Operating budget

In June I voted against the \$22.8 billion state budget. The budget was unsustainable and relied on raids on state funds and dubious assumptions to give the appearance of a balanced budget.

It pulled \$228 million from the Health Services Account into the general fund. Budget writers made an assumption that the federal government would change its interpretation of current rules on Medicare. A new interpretation favorable to the state would replace \$150 million of the raid. Unfortunately, it wasn't a valid assumption and no new federal money appears to be forthcoming. The net effect was reducing money available for health services in exchange for a bigger operating budget.

The budget was also built around raiding a pension fund. One of the police officers' and firefighters' retirement funds (the LEOFF I account) had terrific gains over the last two decades, resulting in an anticipated surplus of about \$1 billion. The budget writers proposed pulling the surplus into the state budget. As you can imagine, police and firefighters were concerned. Budget writers offered a one-time payout to retirees in exchange for an agreement to raid the remaining surplus. While many retirees still opposed the raid, their lobbyists in Olympia agreed to it.

Republicans blocked the raid. It's a good thing. As you probably know, this has not been a great year for the stock market. The LEOFF fund no longer has a large surplus and couldn't have supported either the payout to retirees or the bailout of the state budget. If the raid had occurred, the fund would be in a serious deficit today and a significant liability for the state.

The Democrat proposal also included the governor's request to hire more Department of Revenue (DOR) personnel and assume \$100 million in new revenues. This is above and beyond the recent increase in DOR collection activity. Many

businesses, as well as non-profits and churches, are receiving letters from DOR insisting on years of back taxes from a new interpretation of old rules. By the time the budget was passed out of the Senate the \$100 million assumption was reduced to \$28 million and didn't expand DOR as much as the governor had requested. We don't yet know if DOR has produced any of the assumed revenue, but we know DOR is spending its newly budgeted money.

Perhaps the most dubious assumption of all, budget writers assumed no recession. Although the writing was on the wall in June, budget writers ignored warnings that state revenues would slow. By assuming a rosy scenario, budget writers could add hundreds of millions to the budget and claim that the budget was balanced. Republicans warned that the budget spent too much and relied on unrealistic assumptions.

The budget was also unsustainable. Even if all the assumptions of new money and no recession were accurate, money from a pension fund raid can only be spent once. Budget writers matched one-time money against ongoing spending. It's like buying a house when you have only enough money for the first payment. Republicans warned that the budget was unsustainable, while Democrats called it a good budget that wouldn't demand future tax increases.

Three months later, the September forecast from the state economist showed exactly what we had warned. State revenue was slowing because of a cooling economy. Now the state's budget surplus of more than \$1 billion is reduced to \$66 million. This forecast doesn't even include the effects of the September 11 terrorist attacks that have hurt companies like Boeing and Alaska Airlines, affecting both jobs and tax revenues. We should all be concerned that the next revenue forecast from the state economist will show a budget that is badly in the red. Democrat leaders are already discussing which taxes to raise, while only five months ago they were promising no tax increases would be needed.

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Transportation budget

The transportation budget funds highway construction, ferries, transit, the Washington State Patrol, and other transportation related items. The budget that passed this year was \$3.4 billion.

The governor proposed a long list of new and higher taxes to increase the transportation budget. In the House of Representatives, a majority of legislators (myself included) opposed the governor's plan. Each member had his or her own reasons for opposing the new taxes. Here's mine.

First, we didn't do enough to change the way the Department of Transportation does business. We recently waived red tape, bureaucracy, and needless costs to build the new Seahawk stadium. Why can't we do the same on road projects that citizens truly need? Taxes should be a last resort; yet, in this case they're being treated as the first and only resort.

Second, voters don't support the plan. Democrat leaders refused to allow a public vote on the proposal. Their polling showed people, if given the opportunity, would vote the taxes down.

Third, these taxes are a net drain on Spokane's economy. For the last two decades, Spokane received only a fraction of our transportation taxes back in road construction projects. Some think if we tax enough, there will be money for our projects. The problem is that Western Washington's demand for road dollars is insatiable. Years ago we created a huge, special fund that was supposed to pay for three state projects, two on the west side and the North-South freeway. The money was almost entirely spent on the west side, leaving nearly nothing for our project. We'll do better asking for a fair share of the existing state budget.

We'll work more on the transportation issue this year. I expect Republicans will support regional packages that spend local taxes on local projects with required voter approval. This would at least ensure all the money raised in Spokane goes to our projects.

Capital budget

The capital budget covers construction and remodeling costs for state facilities, including schools, state offices, parks, museums and other items such as habitat improvement. The 2001-03 capital budget totals \$2.5 billion.

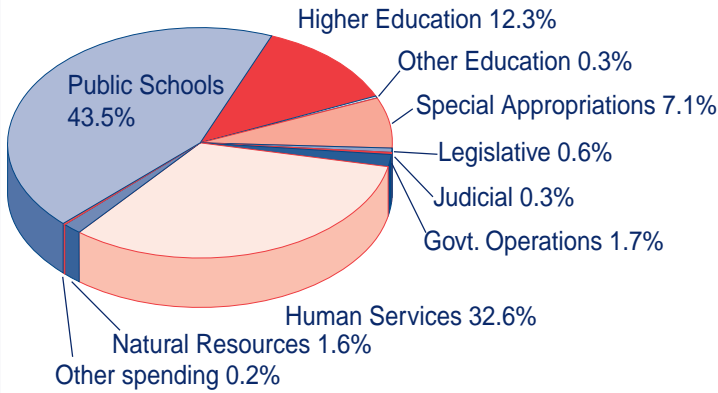
Most state construction projects are funded with bonds, which are often backed by general fund revenues. There is a concern that the problems with the operating budget will leave the state without enough money to support the bonds for the current budget.

Bringing the operating budget into balance

2001-03 Budget Picture

We've had state emergencies in the past. Arguably, each emergency was created by spending too much money and not allowing adequate reserves in case of the inevitable economic downturns. When I was first elected to the Legislature, I voted for budgets that created large reserves. Reserves are a savings account to get us through economic downturns without making things even tougher on taxpayers. The last two budgets, however, treated the reserves only as extra money to spend.

As I write this it appears Democrats have won control of the House of Representatives, giving them complete control of state government. Republicans will offer advice, ideas, and, I'm sure, plenty of opposition to the Democrats' plan this year. I sincerely hope we can fix the budget without gouging the taxpayer.



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State
Budget Update
Controlling
Taxes & Making
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Work

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